Catalogue no. 11-621-MIE — No. 056
ISSN: 1707-0503
ISBN: 978-0-662-45882-1

Analytical Paper

Analysis in Brief

Wholesale Trade: The Year 2006 in Review

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May 2007

Catalogue No: 11-621-MIE2007056
ISSN: 1707-0503
ISBN: 978-0-662-45882-1

Frequency: Occasional
Ottawa

How to obtain more information:
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Wholesale Trade: The Year 2006 in Review

Marc Atkins, Distributive Trades Division

Summary

The country's wholesalers proved again to be a significant source of economic growth in 2006 with a third consecutive year of strong growth, with much of the impetus coming from the two westernmost provinces.

A combination of continued strong sales of machinery and electronic equipment and high demand for consumer-related goods propelled the industry to another record high.

Nationally, wholesale sales increased by 6.3% to $497.4 billion (in current dollars) in 2006, slightly better than the previous year's 5.2% increase. When adjusted for inflation, the gain was 7.4%, indicating that the increase in value was the result of higher volumes.

In terms of constant dollars, Canada's wholesale trade industry recorded its second best growth performance of the past seven years in 2006.

Employing on average almost 740,000 Canadians in 2006, the wholesale trade industry makes a substantial contribution to the Canadian economy. This sector accounted for 6.7% of Canada's economic output as measured by Gross Domestic Product (GDP).

As in 2005, wholesalers continued to cash in on the boom in Western Canada. The economic and demographic boom, particularly in Alberta, was most apparent in the increased demand for machinery and electronic equipment, and personal and household goods. These two wholesale categories recorded the strongest growth in 2006.

Wholesalers in Alberta had another excellent year, leading the nation with a 13.0% increase in sales. This marked the third consecutive year of double-digit growth for the province. Most of the remaining growth in Western Canada came in British Columbia.

Sales in Ontario—which accounted for half of all wholesale sales—also picked up steam after a relatively lacklustre 2005, while in the Atlantic provinces, Newfoundland Labrador led the way for the second year running.

The gain in overall wholesale sales contributed to another profitable year for wholesalers, as industry profits rose 15.1% to a new record high of $16.6 billion.

This study reviews the performance of wholesale industries nationally and regionally last year, along with some of the key factors influencing that performance. (Unless otherwise specified, all data are in current dollars; that is, they have not been adjusted for inflation.)

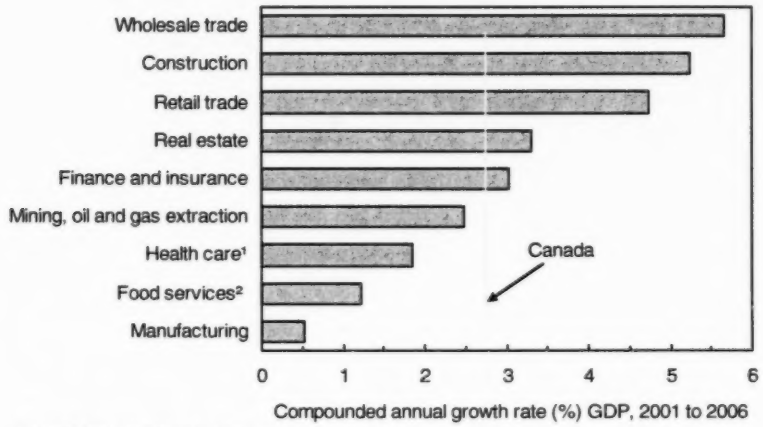
Wholesalers: A growing force in the economy

The wholesale industry, which enjoyed its third consecutive year of strong growth in 2006, has emerged as one of the economy's leading lights over recent years.

Between 2001 and 2006, wholesale output, as measured by Gross Domestic Product, grew at twice the rate of the overall economy, making it the fastest growing of all major industrial sectors during this period.

The wholesale trade industry makes a substantial contribution to the Canadian economy. On average, it employed almost 740,000 Canadians in 2006, and accounted for 6.7% of Canada's economic output as measured by Gross Domestic Product (GDP). To compare, the construction and retail sectors each accounted for 6.1% of the total GDP in 2006, while the health and social assistance sector accounted for 5.6% of the GDP. With 15.9% of the total GDP, the manufacturing sector was the largest contributor.

Chart 1 Wholesale sector shows the highest average GDP growth over the last five years



1. Includes social assistance.
2. Includes accomodations.

Source: Statistics Canada, CANSIM table 379-0017.

As key intermediaries in the economy, wholesalers have profited from both strong business investment, which has been supported by healthy corporate balance sheets, as well as record employment levels that continued to support solid growth in consumer spending.

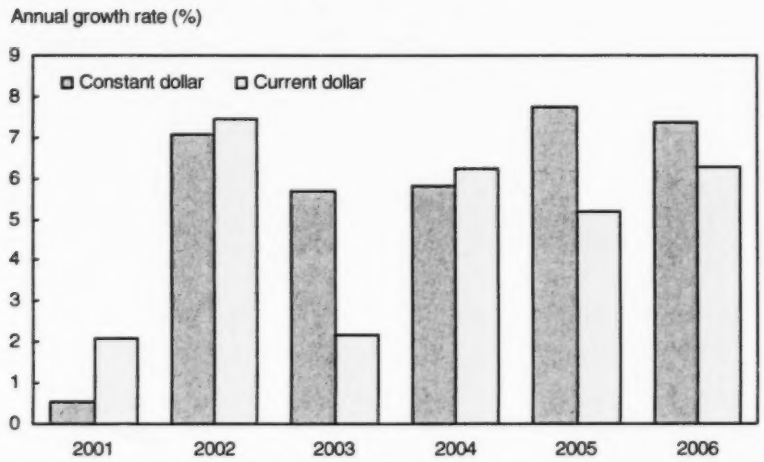
The wholesale sector's growth also reflects the effects of globalization. With fewer consumer products being manufactured in Canada, wholesalers have become increasingly buyers and distributors of products now made elsewhere. As a result, many wholesalers have had to take on outsourcing responsibilities, as well as managing much more complex logistics and warehousing activities. These additional functions have contributed to the sector's growth and increased its importance to the economy.

In order to meet these new challenges, wholesalers have also been quick to adopt new information and communication technologies such as the internet. As a result, labour productivity in the industry is one of the highest in Canada.

When measured in constant dollars, which exclude the effects of price changes to measure the change in volumes, the sales growth in the wholesale industry is even more apparent.

Last year, wholesale sales increased 6.3% to $497.4 billion, slightly better than the previous year's 5.2% increase. However, when adjusted for inflation, the gain was 7.4%, marking the third time in four years that sales in constant dollars have exceeded those in current dollars. At least part of the difference between the two series can be explained by the recent appreciation of the Canadian dollar, which has lowered the prices of the many wholesale products that are priced in US dollars Another contributing factor is the ongoing price deflation for certain products, such as computers and other electronic goods. As a result of this deflation, the growth in current dollar sales understate the real growth in this industry.

Chart 2 Growth in constant dollars outstrips current dollar growth for a second consecutive year



Source: Statistics Canada, CANSIM table 081-0009.

Machinery and equipment: Business investment continues to drive sales

For a third consecutive year, Canadian businesses invested heavily in machinery and electronic equipment. Wholesalers' sales in this sector increased 9.7% to $104.8 billion, surpassing the $100-billion mark for the first time in 2006.

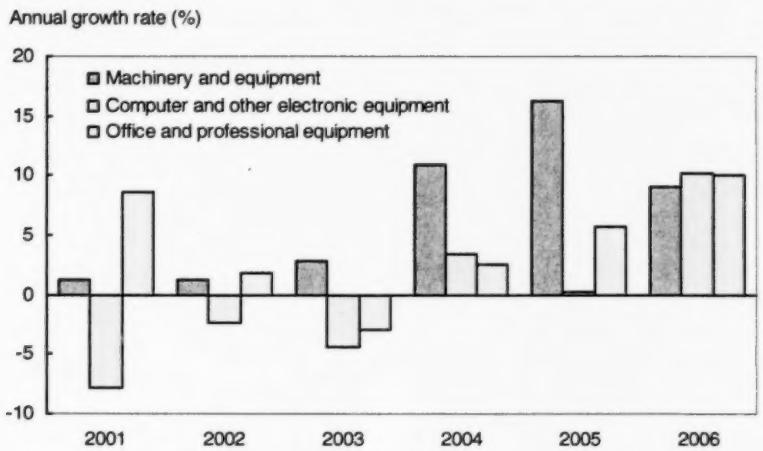
This sector includes three trade groups: machinery and equipment; computer and other electronic equipment; and office and professional equipment. It accounted for more than one-fifth (21%) of total wholesale sales, the biggest share.

Much of the investment in this sector was again driven by the mining and energy sectors, most notably in Alberta, where considerable infrastructure was added to the oil sands. This increase in

business investment could have also been helped by the rising value of the Canadian dollar. While the exchange rate has posed significant challenges for many of the country's export-oriented enterprises, it has helped reduce the cost of capital goods, many of which are priced in US dollars. The loonie on average was worth 88.12 cents US in 2006 compared to 82.53 cents US in 2005.[1]

Unlike 2005, when sales in the machinery and equipment trade group accounted for around 80% of the expansion in this sector, growth was more evenly divided in 2006. That is because the two other trade groups—computer and other electronic equipment, and office and professional equipment—also recorded strong years.

Chart 3 Machinery and office equipment sector: best year since 2001 for computer and office equipment sales



Source: Statistics Canada, CANSIM table 081-0009.

Sales of computers and other electronic equipment increased 10.0% to nearly $31.5 billion, which was the fastest growth rate for this trade group since 1999. Sales of office and professional equipment were up 10.1% to nearly $23.9 billion.

The pickup in sales of computers and other electronic equipment came after several years of lacklustre growth. It also occurred in spite of continuing price declines for computer and other electronic equipment.

There has been a dramatic shift to China as a major supplier of computers over the past decade. Between 1997 and 2006, China's share of Canadian computer imports grew from just 2% to 39%. This, together with its ability to produce goods at a lower cost, has had an impact on prices.

As a result, sales of computer and electronic equipment in constant dollars—which exclude the effects of these price declines—have actually grown at twice the rate of current dollar sales over the past several years.

1. Source: Bank of Canada, http://www.banqueducanada.ca/en/rates/exchange.html (accessed April 18, 2006).

Record consumer spending boosts sales of household and personal goods

Robust consumer spending helped wholesalers of personal and household goods to record their strongest gain since 2002, as overall sales in this sector rose 8.3%, up from last year's already impressive 7.0% growth.

Much of the growth in this wholesale sector reflected higher demand from retailers. For 2006 as a whole, retail sales increased at the fastest rate in nine years, with some of the most notable increases coming in home furnishing, pharmacy and personal care and clothing categories.

Many of the consumer goods that pass through wholesalers' hands are imported. In 2006, imports of consumer goods such as household furnishings, apparel, footwear and consumer electronics grew at their fastest pace in four years.[2]

All three trade groups within this sector contributed to the growth. Almost half of the increase in value was due to a 12.9% gain in household and personal products, their best performance since 1997.

Wholesalers of pharmaceuticals also had another good year (+6.1%), while apparel sales edged up slightly (+1.0%).

Wholesale sales of pharmaceuticals have grown at a fairly steady pace over the past few years as consumers devoted an increasing proportion of their expenditures to health care products. According to data from the Quarterly Retail Commodity Survey, prescription drugs have been one of the fastest growing retail segments over the past several years.[3]

Building supplies: Metal products up, but lumber products down

Wholesalers in the building materials sector recorded sales of more than $70 billion last year, up 6.6% from 2005 but slower than the 8.5% growth of the previous year.

There were mixed fortunes in this sector. Sales of metal products (+11.5%) and building materials (+8.5%) both saw substantial rises, in marked contrast to wholesalers of lumber products, which posted their first decline (-4.2%) since 2001.

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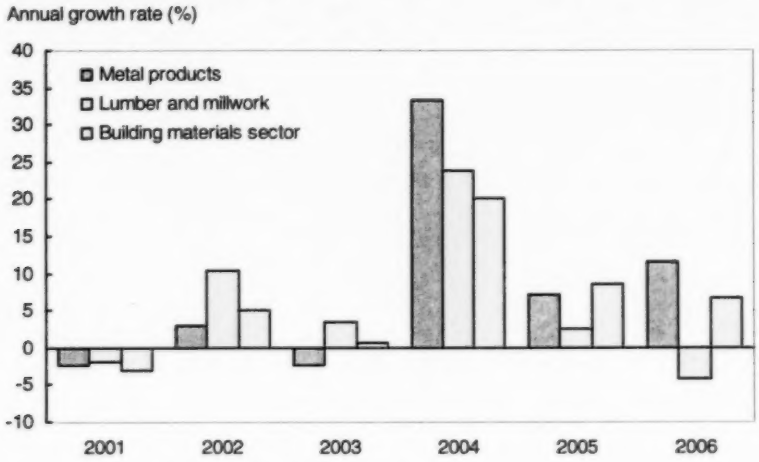
2. *See* ***Canadian Economic Accounts Quarterly Review*****, Statistics Canada Catalogue no.** 13-010-XWE, Vol. 5, no. 4, March 2007, http://www.statcan.ca/english/freepub/13-010-XIE/13-010-XIE2006004.htm (accessed May 2, 2007).

3. Source: Statistics Canada, CANSIM table 080-0018.

Chart 4 Weak lumber sales temper growth of building materials sector in 2006



Source: Statistics Canada, CANSIM table 081-0007.

The slowing of the US housing market—which remains an important source of demand for Canadian lumber wholesalers—was a key factor behind the drop in lumber sales. The drop came in spite of the resolution to the longstanding lumber dispute between Canada and the United States. While the agreement provided a greater degree of certainty for exporters wishing to sell into the American market, it also imposed a new export tax on Canadian exports. On a more positive note, continued high demand from Canadian builders likely offered the industry some relief during the year.

The strength of oil and gas activity in Alberta, coupled with unprecedented levels of construction in Western Canada, continued to drive demand for the products sold by metal product wholesalers. As well, sales were buoyed by strong investment in non-residential building construction, which set a sixth consecutive annual record in 2006, thanks in large part to huge gains in Alberta and British Columbia. Between them, the two provinces accounted for more than 80% of the total increase in non-residential investment during the year.

Sales of building materials were also supported by record levels of residential and non-residential construction. As well, Canadians continued to invest in upgrading their homes in 2006, as spending on renovations rose for the eighth consecutive year. Expenditures on renovations accounted for a significant proportion of total investment in residential structures.

Growth in the automotive sector picks up

Following three years of little or no growth, the wholesale automotive sector grew by 4.5% in 2006 thanks to higher sales in the motor vehicles trade group. The auto parts wholesaling industry, in contrast, was little changed.

Sales in the motor vehicles trade group were boosted by double-digit growth of heavy trucks and recreational vehicles. These accounted for around 20% of all sales in this trade group, but were responsible for some 40% of the growth in 2006.

Wholesalers' sales of passenger cars and light trucks moved ahead at a more modest rate of 3.7% in 2006, as overall sales were held back by lower demand from the United States for many of the vehicles produced in Canada. Passenger vehicle exports declined by 4.7% in 2006.

The drop in demand from the US motor vehicle market was in contrast to the market in Canada, where sales of new motor vehicles recorded their second best year on record. According to the New Motor Vehicles Survey, sales hit 1,666,327 units in 2006, up 2.2% from 2005.[4]

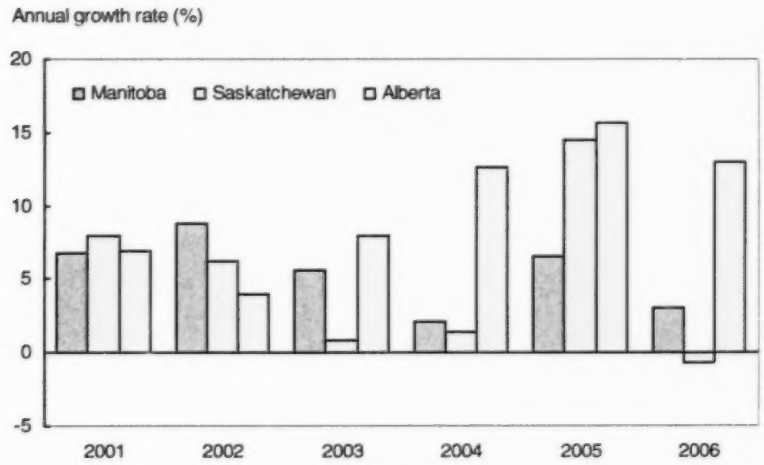
The strength of the Canadian market was good news for wholesalers, as more than half of the motor vehicles that pass through wholesalers' hands are imported. Imports of passenger cars continued to do well in 2006, rising 6.9% after a 5.0% rise the previous year. In 2006 much of the growth in passenger car imports came from vehicles produced outside of North America.

Prairies: Alberta juggernaut continues

In Alberta, energy-related investment, together with robust demand from the household sector, continued to drive demand for wholesale goods in 2006 as the province's wholesalers enjoyed another excellent year with a nation-leading 13.0% increase in sales.

The gain was all the more impressive in light of the 15.7% rise recorded in 2005 and marked the third consecutive year of double-digit growth for the province.

Chart 5 Alberta leads the way between Prairie's wholesalers since 2003



Source: Statistics Canada, CANSIM table 081-0007.

Accounting for some 60% of overall growth in the province, the machinery and equipment (+14.7%) and building materials (+18.1%) sectors were the biggest contributors. The continued expansion of

4. For more details, see Ashley Ker, "New Motor Vehicle Sales: 2006 in Review," *Analysis in Brief*, Statistics Canada Catalogue no. 11-621-MIE, April 2007, http://www.statcan.ca/english/research/11-621-MIE/11-621-MIE2007054.htm (accessed April 23, 2007).

the oil sands, high levels of commercial construction spurred by record low office vacancy rates, and a booming housing market, among other factors, contributed to the growth in these sectors.

It was also a very good year for Alberta's automotive product (+26.6%) wholesalers, thanks in large part to the booming demand for heavy trucks, sales of which have more than doubled in the past two years. Heavy trucks account for the majority of automotive sales in the province.

After posting strong growth in 2005, sales in Saskatchewan fell into negative territory (-0.6%) in 2006 as the province recorded its first year-over-year decline since 1999.

However, the decline was almost entirely due to lower sales in the 'other products' trade group, which had grown at double-digit rates over the previous three years. This trade group accounts for around 30% of total wholesale sales in the province. In 2006, sales were hit by an unexpected delay in reaching a new fertilizer export agreement with a major overseas customer.

Sales in Saskatchewan outside of the 'other products' sector fared better in 2006, rising 4%, with the food and building materials sectors posting the strongest growth.

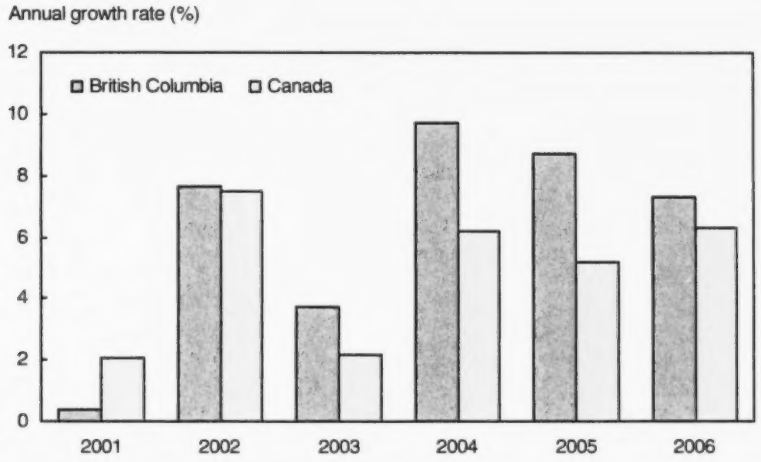
In Manitoba, overall sales rose 3.1% to just under $12 billion. The machinery and equipment sector had another strong year as sales rose around 10% for the second year running. After a slight decline in 2005, the "other products" sector also had a good year, as sales were boosted by higher demand for agricultural supplies.

British Columbia: Fifth consecutive year of above-average gains

Sales growth in British Columbia exceeded the national average for the fifth consecutive year in 2006, making it the only province to achieve this feat during this period.

Overall sales increased by 7.3% in 2006 to $50.7 billion, following an 8.7% increase in 2005. With the exception of the farm products sector, which accounts for less than 1% of wholesale sales in the province, all wholesale sectors posted gains in 2006.

Chart 6 Growth in British Columbia exceeds national growth for fifth consecutive year



Source: Statistics Canada, CANSIM table 081-0007.

The strongest growth came in the machinery and equipment sector (+13.6%) as businesses stepped up their demand for investment goods. Growth in this sector increased from an already impressive 11.8% the previous year. It marked the third consecutive year of double-digit growth within this sector. Within the sector, the highest growth came in machinery and equipment trade group, where sales surged ahead by 17.5%, while wholesalers sales of computers and office and professional equipment also had a good year.

In the building supplies sector, sales were boosted (+8.5%) by strong demand for building materials, along with very strong sales of metal products. The only decline came in the lumber trade group, which had to contend with the slowdown in the US housing cycle as well as strong overseas competition. In 2006, British Columbia accounted for around 40% of Canada's wholesale lumber sales.

Meanwhile, strong employment growth—the province was second only to Alberta in overall employment growth during the year—helped push sales in the household products sector to a 10.6% increase during the year, up from a 6.3% rise in the previous year. Higher sales of personal and household goods and apparel were behind the rise in this sector as sales of pharmaceuticals fell slightly.

Ontario: Growth picks up

Ontario's huge wholesale trade industry rebounded from a disappointing 2005 to post its best performance since 2002. In total, wholesalers in the province sold over $250 billion worth of goods, up 6.4% from 2005 and substantially above last year's 2.1% growth.

Double-digit growth in the machinery and equipment (+10.2) and personal and household goods (+10.6%) sectors provided much of the impetus for this year's rise. As well, the key automotive sector (+3.6) halted a three year slide, thanks in part to a pick up in sales of motor vehicles.

In 2006, Ontario wholesalers accounted for about 79% of total Canadian sales in the motor vehicle sector, which accounts for over one-quarter of Ontario's total wholesale activity. As well, the Canadian market was the destination for over two-thirds of sales for Ontario wholesalers. The remaining sales were destined for export markets, mainly the United States. In contrast, sales of motor vehicle wholesalers in other provinces were almost exclusively dedicated to the Canadian market.

Quebec: Sales slow for second consecutive year

Sales growth in Quebec came in below the national average in 2006, rising 3.4% to almost $94 billion. This was the second consecutive year-over-year slowdown in growth rate of sales for the province, which as recently as 2004 had recorded growth of 7.5%.

Below average sales growth in the household and personal (+1.4%) and automotive (+0.5%) sectors were mostly to blame for the weaker performance. Only the 'other products' sector posted growth (+7.9%) substantially above the provincial average, while the all-important food and beverage sector, which makes up one-quarter of all wholesales sales in Quebec, also had a good year (+4.3%).

The poor performance of the household and personal product sector was primarily due to weaker sales of household goods. However, this trade group had recorded substantial increases over the past two years.

Wholesalers of pharmaceutical products on the other hand fared much better as sales rose a further 9.9% following on from the previous year's 5.0% increase.

In the automotive sector, sales were held back by a decline in the auto parts and accessories (-2.1%) trade group, which account for around 40% of sales in this sector. Sales of motor vehicles did somewhat better, rising 2.1% during the year.

The rise in the "other products" sector was particularly noteworthy as it followed two years of double-digit gains. Very strong demand for recycled materials was behind most of the rise in 2006.

Atlantic region showed growth following two years of declines

Overall wholesale activity in the Atlantic provinces moved back into positive annual change in 2006 after two years of declines. While still significantly below the national average, the region's 2.3% increase was the highest since 2000.

Three out of the four provinces in the region posted increases in 2006, but only Newfoundland and Labrador recorded growth (+6.9%) above the national average. The lone decline came in Prince Edward Island, where a consolidation of operations in a key wholesale sector was largely responsible.

In Newfoundland and Labrador, growth was mainly driven by higher sales in the food and machinery and equipment sectors, which together account for some two-thirds of all wholesale sales in the province.

The second highest increase came in Nova Scotia (+3.7%), where all sectors apart from machinery and equipment registered increases. The rise was partly due to a turnaround in the food and

beverages sector, which had been the major contributor to the declines recorded over the past two years. This sector is the largest wholesale sector in the province with around 25% of overall sales.

Wholesalers in New Brunswick ended three years of consecutive declines, but the increase was a rather modest one (0.9%). Gains in the personal and household and other product sectors were largely offset by declines in the food product and machinery and electronic equipment sectors. This was the third consecutive decline for the food product sector, which was responsible for much of the drop that the province experienced in 2005.

In Prince Edward Island, wholesalers saw another sharp decline in sales (-17.5%) in 2006, following an 11% drop the previous year. However, in 2006 almost all the decline in sales was due to a restructuring of operations in a key sector. The recent declines follow two consecutive years of strong gains.

Table 1 Wholesalers' sales by trade groups, Canada, 2005 and 2006

Trade group	Sales		Annual growth rate
	2005	2006	
	$ thousands		%
Farm products	5,548,771	5,247,117	-5.4
Food, beverages and tobacco products	86,866,429	90,863,357	4.6
Food products	79,308,467	82,974,747	4.6
Alcohol and tobacco	7,557,962	7,888,610	4.4
Personal and household goods	66,876,093	72,394,788	8.3
Apparel	8,923,115	9,015,060	1.0
Household and personal products	27,747,574	31,319,988	12.9
Pharmaceuticals	30,205,404	32,059,740	6.1
Automotive products	90,419,365	94,466,648	4.5
Motor vehicles	71,919,755	75,854,902	5.5
Motor vehicle parts and accessories	18,499,610	18,611,746	0.6
Building materials	66,133,532	70,490,495	6.6
Building supplies	39,302,539	42,658,252	8.5
Metal products	13,566,164	15,120,305	11.5
Lumber and millwork	13,264,829	12,711,938	-4.2
Machinery and electronic equipment	95,533,698	104,787,557	9.7
Machinery and equipment	45,240,054	49,420,662	9.2
Computer and other electronic equipment	28,606,313	31,479,533	10.0
Office and professional equipment	21,687,331	23,887,362	10.1
Other products	56,665,087	59,147,677	4.4
Total	468,042,978	497,397,632	6.3

Note: Components might not add up to the total due to rounding.
Source: Statistics Canada, Monthly Wholesale Trade Survey, CANSIM table 081-0007.

Table 2 Wholesalers' sales by province and territories, 2005 and 2006

Geography	Sales		Annual growth rate
	2005	2006	
	$ thousands		%
Newfoundland and Labrador	2,588,179	2,766,027	6.9
Prince Edward Island	524,807	432,719	-17.5
Nova Scotia	6,241,764	6,472,281	3.7
New Brunswick	4,863,783	4,908,923	0.9
Quebec	90,627,611	93,697,298	3.4
Ontario	235,850,007	250,920,516	6.4
Manitoba	11,547,078	11,901,503	3.1
Saskatchewan	13,644,694	13,556,419	-0.6
Alberta	54,550,593	61,644,839	13.0
British Columbia	47,276,977	50,724,846	7.3
Yukon	95,086	119,067	25.2
Northwest Territories	207,583	229,504	10.6
Nunavut	24,816	23,684	-4.6
Canada	468,042,978	497,397,632	6.3

Note: Components might not add up to the total due to rounding.
Source: Statistics Canada, Monthly Wholesale Trade Survey, CANSIM table 081-0007.